

City of Round Rock, Texas

Primary Credit Analysts:

Theodore Chapman
Dallas
(1) 214-871-1401
theodore_chapman@
standardandpoors.com

Secondary Credit Analysts:

Paul Jasin
Dallas
(1) 214-871-1424
paul_jasin@
standardandpoors.com

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Credit Profile

US\$59.79 mil GO and Refunding Bonds, Series 2007 dated 07/01/2007, due 08/15/2032

Long Term Rating	AA/Stable	New
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US\$14.815 mil Combination Tax and Revenue Certificates of Obligation, Series 2007 dated 07/01/2007, due 08/15/2027

Long Term Rating	AA/Stable	New
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Outstanding GO Bonds, Various Series (AMBAC)

Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on the City of Round Rock, Texas' GO bonds, to 'AA' from 'AA-', reflecting the improvements to the city's economic base that, while always concentrated on Dell Inc., have shown continued growth and diversification, especially to its retail and health care sectors. At the same time, Standard & Poor's assigned its 'AA' rating to the city's \$59.79 million series 2007 GO refunding and improvement bonds as well as to its \$20.41 million series 2007 certificates of obligation.

The rating reflects the city's:

- Location in the Austin MSA, boosting wealth and income levels;
- Good financial performance, including high reserve levels and strong financial management practices; and
- Recent growth in the health care and retail sectors, in line with management's goals of economic diversification and expansion.

These strengths are offset by the city's:

- Concentration in its leading employer and sales taxpayer, Dell Inc. An example of these vulnerabilities include Dell's June 1, 2007, announcement of a 10% reduction to its

worldwide workforce, of which it is not yet clear how many of these 8,800 layoffs, if any, will be in the city; and

- Growth-driven challenges, which will continue to pressure both the operating and capital budgets as the central Texas region remains among the fastest growing in the U.S.

The city's full faith and credit pledge secures the bonds. Proceeds of the bonds will be used for the next phase of the improvements authorized by the electorate in 2001, as well as to refund various maturities for savings of the city's series 1996, 1997, 1998 and 2002 GO bonds as well as the series 1995 certificates of obligation. The series 2007 certificates of obligation will be used to fund approved parks and recreation projects.

Round Rock is about eight miles north of Austin, Texas, on IH-35 and adjacent to a newly opened toll road, providing access throughout the Austin MSA. While not as rapid of a pace as in past years, population and tax base growth have been strong for more than a decade. The estimated current population of 90,100 has nearly doubled in the past 10 years. Assessed value (AV), at \$6.4 billion for fiscal 2007, has increased by more than 40% just in the past five years, raising market value per capita above \$70,000.

The corporate headquarters for Dell Inc., the leading employer, property holder, and sales tax generator; anchors the local economy and employs 9,500 in the city. Despite the recent layoff announcement at Dell, it is still unknown whether there will be local layoffs. In fact, the company had previously announced the addition of 500 new jobs in Round Rock to expand its research and development division. Despite the disproportionately large presence of Dell, the city is not dependent upon any of its principal taxpayers. Median household effective buying income levels were at 141% and 139% of state and national averages, respectively. A property tax abatement agreement between the city and Dell rebates 50% of property tax revenue to the corporation. The sales tax rebate to Dell affects just the one-cent collection for general fund purposes; other sales tax collections are unaffected.

Outlook

The stable outlook reflects the expectation that the city's strong financial position will offset concentration in the leading taxpayer and any potential downturns in sales tax revenues. The stable outlook also reflects the expectation that the state legislature will not enact legislation for the streamlined sales tax project, which would negatively affect the city's sales tax revenues.

Financials: Continued Revenue Growth, High Debt Burden

Round Rock's financial position has historically remained well above its policy of maintaining a minimum reserve of 33% of general fund revenues. City officials reported a \$32.5 million unreserved general fund balance, or 50% of expenditures, at fiscal year-end 2006. Fiscal 2007 year-to-date numbers through May 31 indicate continued growth in revenues, primarily from two large additions to the city's retail base: a 500,000 square-foot outlet mall and a 260,000 square-foot IKEA store. While total sales tax revenues still account for nearly two-thirds of general fund revenues and Dell is about half of that, the city's sales tax revenue base had already been diversifying, and the new retail presences are projected to only help that along. Major additions to the health care sector, including the ongoing construction of two new community hospitals, are expected to further diversify the tax base; AV for fiscal 2008 is projected to exceed \$7 billion.

Due to the city's reliance on Dell-generated sales tax revenue, Round Rock's sales tax revenues could be significantly lowered if the Texas legislature joins the multi-state streamlined sales tax project. While such a move would change the way sales taxes are collected to point-of-destination sales from the current origin-of-sale sourcing, the state legislature is not considering the change, although it remains a future risk to this revenue stream.

The overall net debt burden is high at roughly \$4,000 per capita and 5.7% of true value. Including sales tax revenue debt outstanding, the overall debt burden is a high \$4,300 per capita and 7% of market value, although sales tax revenues historically support the entirety of that debt. Annual GO debt service carrying charges account for a high 16% of expenditures; meanwhile, amortization of debt outstanding is average with about 48% of principal being retired over 10 years.

Financial Management Assessment: Strong

Round Rock's financial management practices are currently deemed strong under Standard & Poor's financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable.

Highlights include:

- Conservative revenue and expenditure assumptions that are based not only on trend analysis, but also economic modeling from internal and external input from external expert consultants;
- Regular monitoring and reporting of the city's budgetary performance and investment portfolio;
- Reserve policies that establish high performance standards for the city as a hedge against sales tax dependency and its dependency on a single major employer and revenue generator; and
- Comprehensive long-term financial and capital planning that incorporates all known effects to operations as well as identifies funding sources for projects and equipment outlays.

The upgrade affects approximately \$98 million in GO debt outstanding.

<i>Ratings Detail (As Of 05-Jun-2007)</i>		
Outstanding GO Bonds, Various Series (FSA)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
Outstanding GO Bonds, Various Series (MBIA)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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